



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: April 21, 2014

Approved

Date

5/1/14

SUBJECT: PUBLIC HEARING AND ADOPTION OF RESOLUTION TO INCREASE RECYCLE PLUS RATES EFFECTIVE JULY 1, 2014 FOR SINGLE-FAMILY AND MULTI-FAMILY SERVICES

RECOMMENDATION

1. Conduct a Public Hearing on proposed 2014-2015 Recycle Plus rates and proposed maximum possible rate increases in 2015-2016 and 2016-2017, and direct staff to return during the 2015-2016 budget cycle with recommendations that are consistent with the proposed maximum rate for 2015-2016.
2. Adopt a resolution to amend the current Recycle Plus rate resolution as follows:
 - a) Increase rates for single-family households by 3%, effective July 1, 2014
 - b) Increase rates for multi-family households by 5%, effective July 1, 2014

OUTCOME

Rate increases of 3% for Single-Family Dwelling (SFD) and 5% for Multi-Family Dwelling (MFD) households would enable the Recycle Plus Program to pay for the cost of service; meet contractual obligations; and maintain a prudent fund balance in the Integrated Waste Management (IWM) Fund. Approval of the recommendation would increase the ratepayer cost of SFD solid waste services by \$0.89 per month for the 32-gallon garbage cart service used by 87% of customers.

BACKGROUND

To ensure the financial integrity of the IWM Fund (Fund 423), Recycle Plus rates must be sufficient to cover the expenses of providing residential solid waste services. Staff regularly reviews actual IWM Fund revenues and expenditures and forecasts the revenue necessary to

implement Council-approved services, programs, and activities. The recommendations of this memorandum are based on the results of this analysis.

Recycle Plus rates were last increased in 2011-2012. Since then, the City's payments to haulers have risen each year due to customer base growth and the annual inflationary adjustment requirement in the Recycle Plus hauler agreements. For years 2012-2013 and 2013-2014, the IWM Fund absorbed the inflationary increases; for 2014-2015, this Fund cannot longer absorb increased service costs without increasing customer rates.

As required by Proposition 218, notices were mailed to all property owners that are subject to these rates in March 2014. The notice specified a maximum 5% rate increase for 2014-2015 and up to 5% increases in each of years 2015-2016 and 2016-2017. After mailing the notice, staff discovered an error in the printed rates for the optional yard-trimming cart. Therefore, the recommended rates maintain the current cart rate of \$4.69 for 2014-2015. As stated in the notice, the yard-trimming cart is subject to increases of up to 5% for 2015-2016 and 2016-2017.

ANALYSIS

Increasing Contractual Costs and Decreasing Non-Contractual Costs

Contractual costs for the Recycle Plus collection and disposal agreements comprise approximately 88% of total program expenditures and are expected to increase by approximately \$3.6 million, or 3.6%, in 2014-2015. These agreements provide the following services: garbage, recycling and yard trimming weekly collection (or more frequent for MFDs); SFD motor oil and oil filter on demand collection; neighborhood cleanup waste collection and recycling; and the household hazardous waste drop-off program. Non-contractual costs comprise approximately 12% of total Recycle Plus expenditures and include overhead, program and contract administration, billing and remittance processing, the customer service call center in the Information Technology Department, and outreach. Non-contractual costs are expected to decrease slightly in 2014-2015, helping to mitigate the rate increases needed to cover rising contractual costs.

The City's agreements with the residential garbage haulers provide for annual adjustments in compensation to cover increases or decreases in contractual costs using the Consumer Price Index methodology. In 2014-2015, the average adjustment to the Recycle Plus contracts per this methodology will be 1.2%.

Service Level Increases

Growth and service level increases also contribute to increased contractual expenditures, particularly for the MFD sector due to higher occupancy rates. The recommended rate increases also fund two service enhancements included in the 2014-2015 Proposed Operating Budget: large item collection for MFDs and the recycling of additional SFD wastes to support the City's

waste diversion goals. The cost of each of these services accounts for approximately 1.5% of both the SFD and MFD recommended increases.

A rate increase for 2014-2015 is thus recommended to cover the above increasing contractual costs, also outlined in Table 1.

TABLE 1 - Estimated Recycle Plus Contractual Costs (IWM Fund)

<i>Contract Expenditures</i>	<i>13-14</i>	<i>14-15</i>	<i>\$ Change</i>	<i>% Change</i>
Single-Family Service	50,158,000	50,871,000	713,000	1.4%
Multi-Family Service	17,724,000	18,579,000*	855,000	4.8%
Yard Trimmings Collection/Processing& Garbage Processing	22,502,000	25,406,000*	2,904,000	12.9%
Landfill Disposal	8,849,000	7,997,000*	(852,000)	-9.6%
Total	99,233,000	102,853,000	3,620,000	3.6%

* Includes expenditure impacts for MFD Large Item Collection and SFD Back-End Processing proposals

Rate Strategy and Recommended Increases

The administration maintains an IWM fund balance equal to approximately one month's operating expenditures for the Recycle Plus and disposal contracts. This balance enables the fund to absorb unforeseen costs from year to year and provides a contingency reserve in the event of service disruptions or emergencies. The annual Recycle Plus contractor compensation adjustment averaged 1.73% in 2013-2014, and 3.61% for 2012-2013; rate increases were not needed for those years due to the availability of IWM Fund balance to absorb these additional costs.

An SFD increase of 3% to the 32-gallon garbage cart (used by 87% of SFD customers) would result in a monthly increase of \$0.89, from \$29.95 to \$30.84 per month. Although 2014-2015 service rates for other jurisdictions are expected to increase, this information is not yet available for comparison. The current and proposed SFD rates are slightly higher than the current countywide average of \$27.10.

The proposed MFD rate of \$211.61 for a 3-cubic yard bin serviced once per week remains far lower than the current countywide average rate of \$277.97.

New billing method and service eliminations

On September 17, 2013, the City Council approved transitioning Recycle Plus SFD customers to Santa Clara County Secured Property Tax billing in July 2015. This new method requires some modification to the existing rates to create efficiencies in the City's billing operations and business processes for property tax billing. The following are scheduled to be eliminated:

- Per the staff recommendation approved by Council on September 17, 2014, the 20-gallon cart service will be discontinued effective January 2015. This allows sufficient time to migrate customers to the 32-gallon service before commencing payment collection through the property tax billing. For the first half of 2014-2015, the proposed rate for the 20-gallon cart service is set at \$29.07 per month, saving subscribers \$1.77 per month compared to the proposed standard 32-gallon cart service rate of \$30.84.
- Approximately 120 Small Commercial Business accounts will migrate to the Republic Services franchise agreement.
- Hardship rates due to Probate, Illness and Fire will be eliminated; this category currently comprises 26 accounts.
- 150 MFDs charged Shared Garbage Cart Collection rates will be migrated to individual service rates.

A Service Type Change fee in the amount of \$100 for up to four dwelling units and \$27 for each additional dwelling unit, with a cap of \$1,000, is proposed to recover the significant City staff costs incurred in evaluating and implementing special requests from customers to change between SFD and MFD (shared versus individual unit billing) service types.

Some rates will not be increased, including those for extra garbage stickers and the optional yard trimming cart. The Rate Resolution accompanying this memorandum includes complete listings of proposed SFD and MFD rates. Information on other jurisdictions' current rates is presented in the Attachment, Rate Comparisons.

EVALUATION AND FOLLOW-UP

Once approved, the Recycle Plus rates will be billed to rate payers for services effective July 1, 2014 for SFD and MFD customers.

PUBLIC OUTREACH/INTEREST

As required by Proposition 218, notices were mailed to property owners in March 2014. Per state law, valid written protests (which must indicate the Assessor's Parcel Number of the property subject to the proposed rate adjustment) from 50% of San José property owners subject to the increase (or 111,573 protests) must be received during the 45-day protest period in order to reject the proposed rate increase. As of April 11, 25 days into the protest period, 735 official

protests and an additional 146 comments or inquiries by email and telephone had been received, representing less than 1% of San José property owners.

The City Clerk counted all protests received as valid; therefore this count represents the most conservative method for tabulating votes. The City's Call Center is also tracking inquiries and responding to residents' concerns. Table 2 shows a breakdown of the protests by category.

TABLE 2 - Proposition 218 Protest Letters Received as of April 11, 2014

# Protest Letters Received	%	Protest Category
695	95%	General Protest – No specific reason given for protest
31	4%	Cite economic downturn/hardship as reason for protest
9	1%	Cite poor service as reason for protest
735	0.33%	San José Property Owners Protesting Rate Increase

These actions do not meet any of the criteria below, however this memo will be posted on the City's website for the May 13, 2014 Council agenda.

- ☐ **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memorandum was coordinated with the City Manager's Budget Office, the City Attorney's Office, the City Clerk's Office, and the Information Technology Department - Customer Contact Center.

COST SUMMARY/IMPLICATIONS

The 3% single-family and 5% multi-family increases along with increases in the customer base are estimated to generate \$3,840,000 in additional revenue to the IWM Fund in 2014-2015. Staff's recommendation aligns with Council Policy that programs be self-supporting whenever possible.

HONORABLE MAYOR AND CITY COUNCIL

April 21, 2014

Subject: Public Hearing on Revising Recycle Plus Rates

Page 6

CEQA

Not a Project, File No. PP10-067 (a), Increase or Adjustment to Fees, Rates & Fares.

/s/

KERRIE ROMAMOW

Director, Environmental Services

For questions please contact Jo Zientek, Deputy Director, Integrated Waste Management Division, Environmental Services, at (408) 535-8557.

Attachment: Rate Comparisons

ATTACHMENT - RATE COMPARISONS

Tables 1 and 2 below compare single-family dwelling (SFD) and multi-family dwelling (MFD) garbage and recycling rates of Santa Clara County cities and agencies. ESD staff conducted this survey in April 2014. **Note that services included with these rates vary widely from city to city, and that San José's services generally are more robust, including unlimited recycling and yard trimmings collection, neighborhood cleanups, and used oil collection.** Information regarding anticipated increases for 2014-2015 was not available at the time of this writing; the comparison uses rates current for 2013-2014.

Table 1
SFD Garbage and Recycling Program 32-Gallon Rate Comparisons

<i>Santa Clara County Cities</i>	<i>Monthly Rate</i>
Los Altos Hills	\$37.01
Sunnyvale	\$32.91
Palo Alto	\$31.64
San José (Proposed)	\$31.44
Milpitas	\$31.30
San José (Current)	\$29.95
Countywide Weighted Average	\$28.77
Los Altos	\$29.94
Gilroy	\$28.66
Santa Clara	\$24.31
Monte Sereno	\$27.67
Morgan Hill	\$26.63
Unincorporated County Districts	\$21.50-35.12
Saratoga	\$24.71
Campbell	\$23.50
Cupertino	\$22.93
Los Gatos	\$22.81
Mountain View	\$22.60
<i>Other Northern California Cities</i>	
San Francisco	\$34.08
San José (Proposed)	\$31.44
San José (Current)	\$29.95
Oakland	\$29.30

Table 2
MFD Garbage and Recycling Program 3-Cubic Yard Bin Rate Comparison

Santa Clara County	<i>Current Monthly Rate</i>
Countywide Average	\$277.97
San Jose (Proposed)	\$211.61
San José (Current)	\$201.54

San José's current rate for a 3-cubic yard bin serviced once per week (a common multi-family service level) is \$201.54, which is lower than the current countywide average of \$277.97 per month (average based on 12 cities in Santa Clara County that offer multi-family bin service). San José's multi-family rates also include unlimited recycling and yard trimmings collection. These services are not always provided in other jurisdictions, particularly when multi-family service is provided by a commercial collection company.